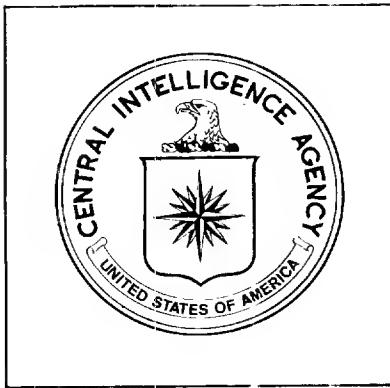


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WESTERN EUROPE - CANADA - INTERNATIONAL ORGANIZATIONS

This publication is prepared for regional specialists in the Washington community by the Western Europe Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Spanish Liberalizers and Conservatives on
Collision Course

Spanish Prime Minister Arias and some of his ministers are reportedly pressing for positive government action to soften the adverse political impact of the anti-terrorist campaign. Prospects are uncertain, however, as hardliners are also becoming more aggressive in clamping down dissent.

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[REDACTED] the cabinet decided early this month to push ahead quickly with political and economic measures having a broad domestic appeal. For example, a price freeze on basic goods and a public works program to combat unemployment are under consideration. The government announced earlier this week that the newly-established political associations would be allowed to use the state radio and television to campaign in next spring's parliamentary election.

The decision to try some of the remaining Basque terrorists in civilian courts is an indication that some members of the establishment are deeply concerned over the need to mitigate foreign as well as domestic criticism of the executions. The government may have acted, in part, out of fear that further military handling of such trials would contribute to the further politicization of the armed forces. In any case, this action will probably sit well with a majority in the military establishment who do not want direct involvement in the maintenance of public order.

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There are also ample signs that the government intends to let off lightly most of the 12 officers recently arrested for political activity. It will probably concentrate on those against whom a reasonably good case--perhaps evidence of contacts with a far left political group--can be made.

Running counter to these efforts is the continuing suppression by hardliners in the establishment of political dissenters. Last week five priests were detained in Madrid for delivering a homily condemning the death penalty that was carried out for the terrorists last month and the manner in which the "confessions" had been obtained. The sermon was attributed to Bishop Iniesta and it was rumored that he, too, would be arrested. To avoid a potentially critical church-state confrontation, Iniesta was persuaded by church officials to leave the country.

Conservatives have also moved to maintain their control of the only legal labor organization--the government-controlled Syndical Organization. Establishment control over the organization was threatened when illegal labor groups on the left scored significant victories in the nationwide labor elections last June. They replaced most of the 75 percent of incumbent shop stewards who were ousted then. Most of the newly-elected stewards favor a radical transformation of the present system.

Hardliners in the unions seem to be manipulating the election of local labor officials which is currently under way. They may even be using coercion and outright fraud in their efforts to re-establish control over the union organization.

Liberalizers and hardliners seem, therefore, to be on a collision course. [REDACTED]

[REDACTED] Fraga Iribarne, a former cabinet minister who is now ambassador to London, believes that Generalissimo Franco is now listening attentively

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to ultra-rightists who have never concealed their dislike of Arias and the "liberalizers." Fraga's friends in Spain are said to be pessimistic about the prospects for political reform because the popular mood has hardened against liberalism. Fraga, however, discounts their prediction that Arias will be replaced before the end of the year by the head of the National Movement, Solis Ruiz.
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West German Chancellor Schmidt Tours the Horizon
With "Financial Times"

West German Chancellor Helmut Schmidt addressed a number of economic and domestic and foreign political issues in an interview that appeared in the London Financial Times on October 13. Although Schmidt broke little new ground, he did explain his views on such topics as the free market economy, monetary policy, European integration, the prospects for a common European defense policy, and West German relations with the US, the Soviet Union and Eastern Europe.

Concerning government controls over investment, Schmidt stated that he is against central planning, preferring instead to influence decisions on investments through fiscal incentives. He added that the forces of the market place rather than bureaucratic control must play the major role in determining whether investments are increased or reduced.

The question of whether the government should exert control over private investments--and thereby more actively guide economic activity--has become a controversial one in West Germany recently. Left-wing members of Schmidt's Social Democratic Party have advocated such government control, and party leader Willy Brandt has endorsed their right to debate such issues. This has disturbed moderate and right-wing Social Democrats, as well as the coalition Free Democrats. Schmidt probably welcomed the opportunity provided by his interviewers to restate his position on this subject.

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On monetary policy, Schmidt said that volatile floating rates of exchange have contributed to the world-wide recession, and advocated close cooperation between the dollar area and the so-called European snake. Schmidt also explicitly stated that in the "long run" he favors fixed, but adjustable, exchange rates. The long-run undoubtedly refers to a time when the monetary and fiscal policies of the major currency countries would be more closely linked.

The West German government recently attempted unsuccessfully to pare the budget for the EC Common Agricultural Policy. Schmidt did not refer directly to this, but he did mention the "ever-growing problem" of agricultural surpluses, and indicated that Bonn remains unhappy about financing the "rising production and marketing of surpluses." The West Germans are the largest single contributor to the EC budget, much of which goes to the CAP.

Schmidt took an optimistic view of recent EC attempts to speak with a common voice on foreign political problems. He cited the close harmony within the Community in negotiating at the European security conference, in creating the Euro-Arab dialogue, and in coordinating positions at the UN seventh special session. The West German Chancellor said, however, that the development of a common European defense policy is some way off.

Schmidt, who visited the US in early October, again praised West German-US relations, saying that Bonn and Washington are largely in agreement on most issues. He again suggested, however, that the US and West European countries more closely harmonize interest rate policies. He said that the chances of broad international cooperation on this issue and others are better than a year ago.

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Schmidt again spoke realistically about Bonn's policies toward the USSR and Eastern Europe. He said his government has never believed that problems would be solved overnight, and indicated that Bonn will continue patiently to foster better relations.

Schmidt, as he did before the West German parliament in mid-September, pointed out that Eastern Europe now buys eight percent of West Germany's exports--double the total of only a few years ago. He has been stressing this theme in an effort to persuade domestic opponents that better relations with Eastern Europe will help the Germany economy.

On domestic issues, Schmidt predicted that the Social Democrats and Free Democrats will be able within six months to agree on legislation establishing labor-management co-determination on industrial policy. The coalition partners have been sparring over this issue for years, but recent press reports seem to support Schmidt's assessment that they are close to agreement.

Schmidt twice referred to the "responsible" attitude the West German trade unions have taken on economic issues in the past years. He predicted that they will continue to make a contribution toward restoring economic stability. The labor unions are the chief supporters of Schmidt's Social Democrats and, with a national election coming up next year, he has gone out of his way to flatter them several times within the past months. (CONFIDENTIAL)

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Base Opponents Form Committee in Iceland

Some 250 opponents of the US-manned NATO base in Iceland set up a committee last weekend to organize opposition throughout the country.

The 12-man central committee was tasked with promoting citizen participation in anti-base activities and studying the allegedly pernicious influence of the base on Icelandic society. The committee also plans to look into the "apathetic" attitude of Icelandic authorities toward activities at the base and will begin work on a plan for the removal of the defense force from Iceland.

The base issue is heating up at the same time as Icelanders are rallying around Reykjavik's extension of its fishing limits to 200 miles. Prime Minister Hallgrimsson has already warned that the fisheries issue could have implications for the future of the base. The defense and fishing issues are linked in the public's mind. Many Icelanders wonder why the Keflavik base, which was ostensibly set up to defend Iceland, cannot be used to guard against intruding foreign fishing vessels. (CONFIDENTIAL NOFORN)

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The UK, the EC and Energy

Delegates from several industrial and developing countries agreed this week in Paris to hold a conference of 27 states on "international economic cooperation." The session which convenes on December 16 in Paris, will bring together rich and poor nations to consider energy, raw materials, economic development and related financial issues.

London's decision not to allow the EC to represent it at the meeting has had little effect as yet on the preparations, but the UK's action will enormously complicate the process of selecting which countries will represent the industrialized nations, and how they will coordinate policies. The move reflects Britain's difficulty in balancing national and community interests and is another example of the trouble the EC has had recently reaching common stands on international economic issues. If the EC members make London's move a matter of principle, a bitter, divisive wrangle could develop.

The UK had been on record for some time that it might seek its own seat. Nevertheless, Foreign Secretary Callaghan's firm stand at the EC Council last week caused surprise and dismay among London's EC partners. Predictably, most of them assailed the British for threatening EC "solidarity" by neglecting to make any reference to the need for a common stand, even though all recognize that agreement on an EC energy policy is an extremely difficult matter.

Most EC members are taking London's move as a serious threat to the Community. German Chancellor Schmidt--probably reflecting the view of the other EC partners--sent Prime Minister Wilson a stiff note warning London that cooperation is a two-way-street. A German official said that Schmidt's

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argument was, in essence, that the UK may be able to go it alone on energy but it cannot solve its domestic economic problems without help from the EC.

Callaghan contends that Britain--as the only potential oil exporter among the Nine--could not have its interests adequately represented by the community. This highlights the disparate concerns among the partners that obstructs their search for a common energy policy. Satisfaction of even the UK's principal demand--a long-range energy price guarantee for its North Sea oil--would, in itself, do little to narrow the gap.

The Wilson government has been under domestic pressure on the issue of sovereignty over North Sea production since well before last summer's referendum that confirmed the UK's continued participation in the EC. The Labor government, faced with a deteriorating economic situation, cannot afford to give the impression that it has surrendered control over the resource many have touted as Britain's best hope for the future.

London's reluctance to delegate representation may be aimed in part at getting the community to develop a common energy policy. The UK's impatience with its partners can also be seen in other areas, however. On relations with the developing countries, the EC has yet to formulate a coherent stand. As recently as Monday, the Nine failed to agree on an aid program for those developing states that are not already associated with the community--many of them Asian countries with ties to Britain.

The EC took a back seat to the US at last month's special session of the UN, where a compromise was struck between the developed and developing states. London had advanced its own program for development cooperation to its commonwealth associates last spring, and the Wilson government may feel that

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the lack of international response is, at least in part, due to London's difficulty in securing the support of its community partners. London can thus also make the argument that its development policy cannot be adequately represented by the community and could further insist that its importance as an international financial center dictates the need for separate representation on financial issues.

The EC and the other industrialized states will, of course, have to settle the representation question before the conference in December. Short of an accommodation with its partners there are few workable alternatives. One possibility--not generally favored by most participants--would be to increase the number of participants to accommodate other developed states, along with a commensurate increase in developing-state representatives. Another would be to allow the EC and Britain both to attend the conference or participate in one or more of its follow-up commissions. Other, less likely, solutions include a full agreement among the Nine on common energy and development policies or permitting Britain to take the EC seat on energy matters. The latter would not resolve the basic conflict of interests between Britain and the rest of the community. In the end the UK faces the possibility of not gaining its own seat at the conference and, having declined EC representation, not being represented at all. (CONFIDENTIAL NOFORN)

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Soviets Take New Stance on the Kaliningrad Nuclear Reactor Deal with the West Germans

Moscow's latest proposal for the construction of a West German-built nuclear power plant in the Soviet Union is creating political problems for Bonn. The principal reason for the difficulty is that the Soviets are now insisting that the East Germans participate in the multimillion dollar installation which is intended to supply electric power to West Berlin and West Germany.

West German officials told the western allies earlier this week that the bilateral project, first proposed by the Soviets two years ago, is virtually dead.

The revised Soviet proposal suggests that political considerations outweigh the economic attraction of the project. Moscow is reluctant to accept an arrangement that strengthens ties between Bonn and West Berlin, as would have been the case with the original project. Moscow is probably also trying to avoid impugning East German sovereignty, especially at a time when certain Soviet policies appear to be causing economic problems for East Berlin. The East Germans have long insisted on control over transmission lines across their territory.

Moscow terms the power-plant project a joint West German - CEMA endeavor in its new proposal. Putting it in this context has the additional benefit for Moscow of strengthening the prestige of that Soviet-dominated organization since, if accepted, the proposal would set a precedent for a western nation to deal directly with the economic grouping.

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West German officials are sharply divided over the new Soviet proposal. Some insist that Moscow keep to the original bilateral concept. Others would find a trilateral project acceptable if the Soviets were to reaffirm a commitment to transmit electric power directly from the plant in Kaliningrad to the Federal Republic via West Berlin.

The Soviet proposal does not appear to meet this West German concern; on the contrary, it recommends that CEMA power lines in Poland and East Germany transmit the electricity. The Schmidt government can not afford politically to go along with this proposal because it would give East Berlin and Warsaw control over power supplies to its territory.

No firm policy guidelines have yet emerged but the West Germans are probably willing at least to discuss the Soviet bid if Moscow gives a firm guarantee that Pankow will not interrupt power deliveries to West Berlin. To ensure this, Bonn would insist upon a direct link from Kaliningrad through West Berlin to the Federal Republic.

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